# Inland Natural Gas Co. Ltd.
# 1976 Annual Report

## GRAPHIC DESIGN

In the economic interests of both shareholders and natural gas consumers, Inland is continually working towards developing new business which will further improve the Company's load factor.

The graphic design and pictorial content of this report is intended to illustrate the type of natural gas load which allows your Company to operate its facilities at a high level of capacity throughout the four seasons of the year.

Pulp Mill

# Directors

| | |
|---|---|
| +*Ronald L. Cliff | Chairman of the Board, Inland Natural Gas Co. Ltd. |
| + Roderick M. Hungerford | President, Flex-Lox Industries Ltd. |
| +*J. Norman Hyland | President, Granduc Mines Ltd. |
| *Robert E. Kadlec | President and Chief Operating Officer Inland Natural Gas Co. Ltd. |
| Donald R. MacPhail | Vice-President and Secretary, Inland Natural Gas Co. Ltd. |
| Thomas G. Rust | President and Chief Operating Officer Crown Zellerbach Canada Limited |
| Horace B. Simpson | Vice-President, Okanagan Holdings Ltd. |
| *Richard B. Stokes | Executive Vice-President Inland Natural Gas Co. Ltd. |
| + H. Richard Whittall | Partner, Richardson Securities of Canada |

*Member of the Executive Committee.
+Member of the Audit Committee.

All Directors reside in British Columbia

**OFFICERS**

| | |
|---|---|
| Ronald L. Cliff, C.A. | Chairman of the Board |
| Robert E. Kadlec, P.Eng. | President and Chief Operating Officer |
| Richard B. Stokes, C.A. | Executive Vice-President |
| Donald R. MacPhail, L.L.B. | Vice-President and Secretary |
| Clifford I. Kleven, C.A. | Treasurer and Controller |
| Ardelle F. Clark | Assistant Secretary |

**HEAD OFFICE**
1075 West Georgia Street, Vancouver, B.C. V6E 3G3

**REGISTRAR**
Canada Permanent Trust Company, Vancouver, B.C.

**TRANSFER AGENT**
Canada Permanent Trust Company,
Vancouver - Calgary - Toronto - Montreal - Halifax

**AUDITORS**
Thorne Riddell & Co.

**CONTENTS**



Company may feel necessary to maintain an adequate return.

Notwithstanding two wholesale price increases in two years and your Company's recent interim rate increase, all classes of customers continue to show a preference for natural gas over other forms of energy. This coming year we are forecasting that new residential and commercial customers will be added at the same high rate established in the past two years.

Industrial accounts have requested significant increases in their firm gas supply contracts and we are anticipating even further growth in that sector of the market in the future.

During the years 1955 to 1975, your Company entered into franchise agreements with most of the incorporated municipalities in which it distributes gas. These franchises were for a term of 20 or 21 years. This year marks the first year for renewal of a number of these agreements and franchise renegotiation will now become an ongoing program for your Company.

Chairman of the Board

President and Chief Operating Officer

Vancouver, B.C. September 28, 1976

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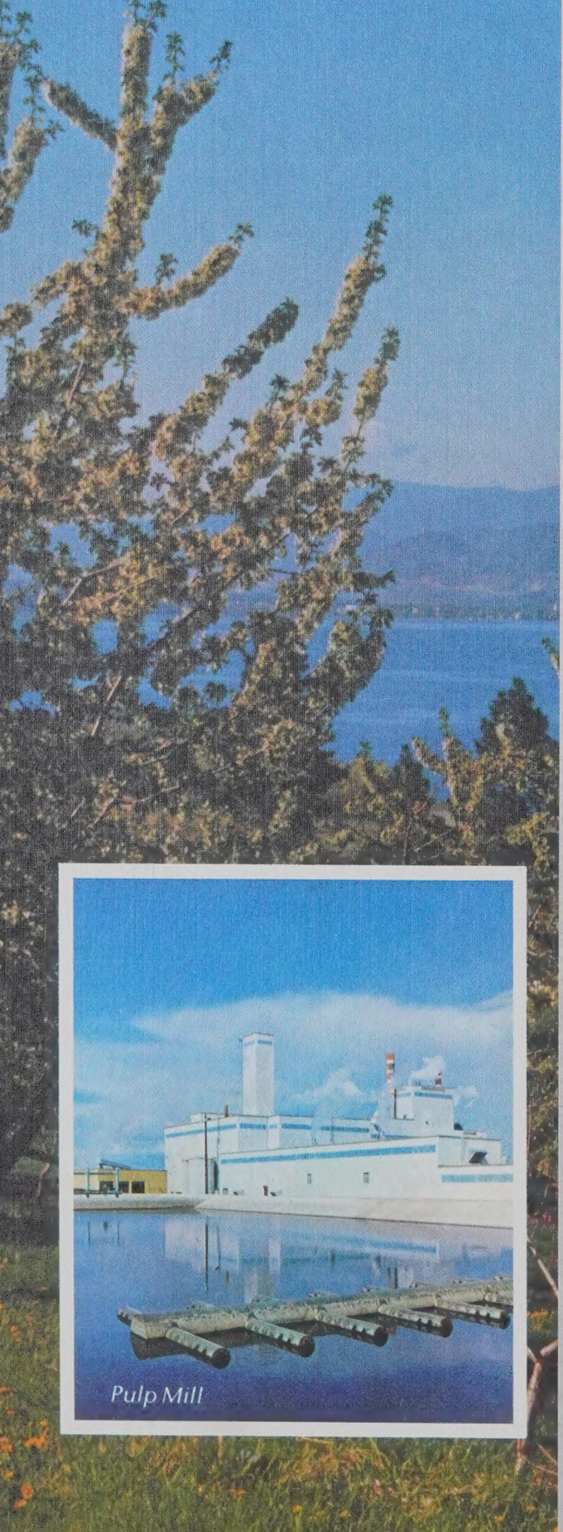


*Pulp Mill*

# Highlights

| EARNINGS AND DIVIDENDS | 1976 | 1975 |
|---|---|---|
| Net Income | **$ 4,805,917** | $ 4,094,233 |
| Common Shares Outstanding | **2,822,122** | 2,822,122 |
| Earnings per Common Share | **$ 1.56** | $ 1.31 |
| Dividends per Common Share | **$ .80** | $ .74 |
| Dividends per Preference Share | **$ 1.00** | $ 1.00 |

| REVENUES AND CUSTOMERS | | |
|---|---|---|
| Total Revenue | **$38,296,766** | $34,532,965 |
| Total Gas Sales Revenue | **$37,471,711** | $33,825,713 |
| Total Gas Sales Volume (MMcf) | **37,726** | 38,569 |
| Number of Customers | **67,434** | 62,481 |
| Degree Days (base 18°C) | **4,018** | 4,140 |

| PROPERTY, PLANT AND EQUIPMENT | | |
|---|---|---|
| Additions for the Year | **$ 14,392,029** | $13,962,266 |
| Total Investment | **$105,867,600** | $91,966,564 |

**ANNUAL MEETING**

11:00 a.m. (Vancouver time) October 29, 1976,
Hotel Vancouver, Vancouver, B.C.

| CONSOLIDATED COMPANIES | ACT OF INCORPORATION |
|---|---|
| Inland Natural Gas Co. Ltd. | Province of British Columbia Companies Act |
| Wholly-owned Subsidiaries | |
| Peace River Transmission Company Limited | Special Act of the Parliament of Canada |
| Grande Prairie Transmission Co. Ltd. | Province of Alberta Companies Act |
| Inland Development Co. Ltd. | Province of British Columbia Companies Act |
| St. John Gas & Oil Co. Ltd. (N.P.L.) | Province of British Columbia Companies Act |
| Inland Transmission Co. Ltd. | Province of British Columbia Companies Act |
| Inland Development (1957) Co. Ltd. | Province of British Columbia Companies Act |

# To our shareholders

The fiscal year under review reflects some record achievements for your Company. Net earnings per common share were at a record level of $1.56 after providing $250,000 for income tax, compared to $1.31 in the previous year after providing $737,000 for income tax. The reduction in income tax is explained in the Directors' Report. The annual dividend per common share was 80¢ compared to 74¢ in the previous year.

A highlight for the year was the completion of the East Kootenay Link. This project, which the Company has pursued since 1967, involved construction of 103 miles of 12" pipeline connecting Inland's existing transmission system near Trail, to the Alberta Natural Gas line near Yahk, B.C. A number of significant benefits accrue to Inland and its consumers as a result of this new pipeline.

In June of this year, your Company completed a $10 million issue of Preference Shares. This issue together with the sale of $12 million First Mortgage Bonds in June of the previous year, completed the financing of the Link.

The successful growth and development of any natural gas utility depends on a long term adequate supply of natural gas, together with a growing market area and a pricing structure that is competitive. Your Company meets all three criteria.

Completion of the pipeline connecting to Alberta gas reserves has provided your company with an additional winter supply of natural gas to meet the peak day demand in the immediate future. Current contractual limits with our major supplier, Westcoast Transmission, would otherwise have been reached this year. We are confident that additional supplies of natural gas will be available to your Company to satisfy future demand requirements.

In a report published by the British Columbia Energy Commission dated April 1976, the Commission states, "This province is fortunate in having large reserves of natural gas to supply a large part of its energy requirements. Our forecast of natural gas requirements, combined with forecasts of natural gas deliverability, suggest that the province will have sufficient natural gas to fulfill its own requirements for some time to come."

Recommendations last Fall of the British Columbia Energy Commission to raise the price paid to natural gas producers at the wellhead, and the implementation of such recommendations by the Provincial Government, has resulted in a total of 125 wells being drilled during the winter season of November 1975 to April 1976 in British Columbia. This compares with 74 wells drilled the previous season. The increased activity in the exploration for new supplies of natural gas is most encouraging and the success therefrom will be crucial in assuring the Province and your Company a long-term supply of natural gas.

In January, 1976, your Company received approval from the B.C. Energy Commission to implement an interim rate increase to recover increased costs resulting from inflation and the completion of the East Kootenay Link. Inland is currently preparing for a full scale hearing to substantiate this increase along with further increases the Company may feel necessary to maintain an adequate return.

Notwithstanding two wholesale price increases in two years and your Company's recent interim rate increase, all classes of customers continue to show a preference for natural gas over other forms of energy. This coming year we are forecasting that new residential and commercial customers will be added at the same high rate established in the past two years.

Industrial accounts have requested significant increases in their firm gas supply contracts and we are anticipating even further growth in that sector of the market in the future.

During the years 1955 to 1975, your Company entered into franchise agreements with most of the incorporated municipalities in which it distributes gas. These franchises were for a term of 20 or 21 years. This year marks the first year for renewal of a number of these agreements and franchise renegotiation will now become an ongoing program for your Company.

R. Laudwlett

Chairman of the Board

President and Chief Operating Officer

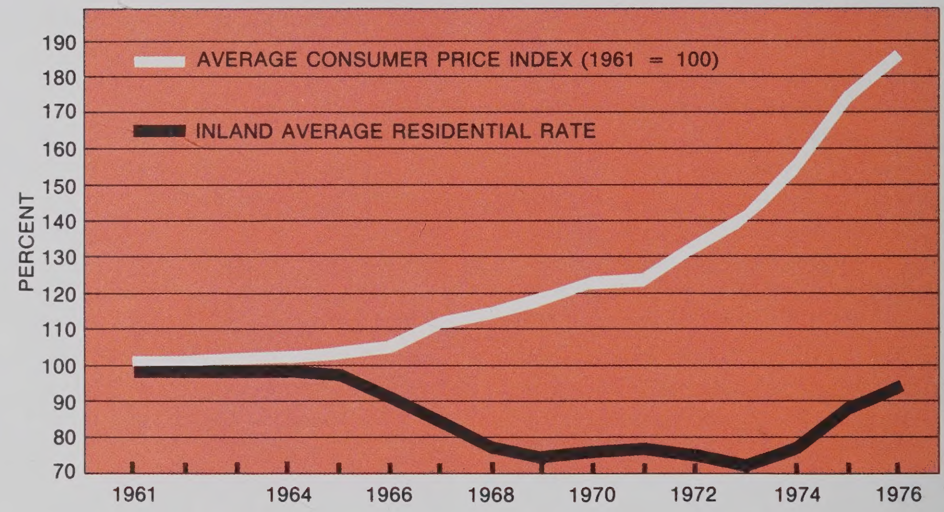
Vancouver, B.C. September 28, 1976

# Directors' Report

## REVENUE

Consolidated gross revenue for the year under review was $38,296,766. Revenue from Inland's gas sales was $35,786,016 compared to $32,414,184 in the prior year. A substantial portion of this increase is due to rate increases which are dealt with later in this report. Inland's sales volume for the year was 34,600,000 Mcf compared to 35,500,000 Mcf in the previous year. Weather for the year was basically normal, although somewhat warmer than the previous year. Residential and commercial sales were 5% higher as a result of adding approximately 5,000 new customers during the year. This reflects a continued acceptance of natural gas as a preferred fuel in Inland's service area. The Company continues to attract approximately 95% of new construction within economic reach of gas mains. Large industrial volumes decreased for the second consecutive year to 16,156,000 Mcf. This decrease is directly attributable to prolonged labour strikes in the pulp and paper industry, coupled with poor market conditions in the lumber industry during the first quarter of the fiscal year.

Other operating revenues consisting of the sale, rental and financing of gas appliances and customer connection charges amounted to $528,355 compared to $410,552 in the previous year. Included in this account is a profit of $109,000 realized on the sale of a building and property in the City of Prince George this year.




### Rates & Regulation

In the nineteen years since your Company commenced selling natural gas in the interior of British Columbia, Inland had never of its own volition applied for an increase in its rates to consumers. We feel this is an enviable record and almost unique when compared to utilities in North America. However, with the completion of the East Kootenay Link and the permanent financing of this major capital project, coupled with inflation in the form of higher labour costs and other operating expenses, including property and franchise taxes, it was necessary for the first time to seek rate relief by way of application to the Company's regulatory authority, The British Columbia Energy Commission.

Effective January 2, 1976 the Company, with the Commission's authorization, implemented a 7¢ per Mcf interim rate increase for all customer classifications. The Company is presently preparing for a full scale rate hearing which will take place during the coming fiscal year, at which time the interim rates which are subject to refund if not fully justified, must be substantiated along with any further increases in rates for which the Company may apply.

In March the Provincial Government announced an increase in the wholesale commodity price of natural gas of 15¢ per Mcf effective April 1, 1976. This increase in the wholesale price flows through to the British Columbia Petroleum Corporation, and will be used, in part, to provide for additional payments to producers in the Province.

Effective April 1, your Company received approval from, and filed new retail rates with, the British Columbia Energy Commission, allowing the Company to recover in total from its customers the increase in the wholesale price of natural gas. There is, therefore, no effect on the Company's earnings from this price increase.

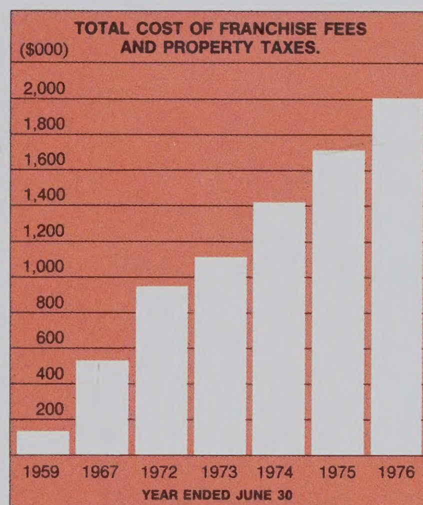
## EXPENSES

### Purchase of Gas

The cost of gas purchased by Inland during the year was $19,423,365. The increase over last year's cost of $18,663,501 can be attributed to the increased wholesale price of natural gas referred to above. Excluding the effect of the wholesale price increase, the unit cost of gas purchased was slightly reduced due to the operation for the first time of the East Kootenay Link. The availability of Alberta gas supplied by Alberta and Southern Gas Co. Ltd. under a peak shaving purchase agreement, enabled Inland to reduce its contract demand volume with its main supplier, Westcoast Transmission Company Limited. This peaking gas was utilized by your Company during the winter months, and has been returned during the off peak months, which results in a better overall load factor on the Inland system. Inland pays Alberta & Southern a peaking charge on this "borrowed" gas.

### Operation, Maintenance, Selling and Administrative

In fiscal 1976 operation and maintenance expenses amounted to $2,733,628, and selling, general, and administrative expenditures were $1,561,415. The comparable figures for the previous year were $2,304,681 and $1,157,066 respectively. The substantial increases in these accounts are due primarily to today's inflationary costs of doing business. Salaries, wages, and related employee benefits amounted to $4,886,567, an increase of 28% over last year. The Company's own




work force is utilized to a large extent in the construction of new plant additions, and therefore a substantial portion of employee remuneration and related administrative costs are capitalized.

The average number of employees on the payroll during the year was 249 compared to 240 a year ago. Approximately 75% of Company personnel are union members and are covered by two separate collective agreements; one with the Office & Technical Employees Union, and the other with the International Brotherhood of Electrical Workers. These collective agreements are in force for two years, expiring March 31, 1977 and September 11, 1977, except for wage rates, which are settled on a one year basis. The Company has received requests from both Unions to commence negotiations for new wage rates, one to be effective from April 1, 1976 to March 31, 1977 and the other to be effective from September 12, 1976 to September 11, 1977.

### Property, Franchise and Other Taxes

Your Company continues to contribute substantial tax revenue to the communities it serves. During the current year property taxes and franchise fees increased by 17% to $2,005,313 compared to $1,713,484 last year. Since franchise fees are calculated at 3% of gross revenue from natural gas sales within municipal boundaries and a portion of property taxes is also based on gas sales revenue, the continued increase in the retail price of natural gas has resulted in major increases in revenue to the municipalities in our service area.

The Provincial corporation capital tax amounted to $113,462 this year compared to $78,195 in the prior year.

### Depreciation

The table below sets out depreciation rates for major plant classifications:

| | |
|---|---|
| Transmission and distribution mains | 2% |
| Meters, compressors, buildings, measuring and regulating equipment | 3% |
| Other general equipment | 5% to 15% |

The composite rate of depreciation was 2.34%, unchanged from the previous year. Consolidated depreciation in the current year amounted to $1,818,970 compared to $1,745,311 last year.

### Interest and Expense on Long-Term Debt

Interest and expense on long-term debt amounted to $4,166,524 compared to $2,903,876 in the previous

Asphalt Plant

year. This increase is mainly attributable to the interest cost on the $12 million 11⅛% First Mortgage Sinking Fund Bonds, Series G. which were issued on June 26, 1975. An offset to interest on debt securities was the interest saved on long-term debt securities retired during the current year in accordance with sinking fund requirements.

**Other interest**

Cost of short-term borrowing by way of bank loans and the Company's own commercial paper was $888,540, which was slightly more than last year. The Company's composite short-term borrowing rate for the year was 9.81% compared to 9.59% in the previous year.

**Interest Charged to Construction**

The Company follows the practice of capitalizing interest on funds used during the period of construction of major plant additions. Interest charged to construction in the current year amounted to $563,583 compared to $529,712 in the previous year. Almost all of the interest capitalized in both the current and previous year relates to the use of funds for construction of the East Kootenay Link.

**Income Taxes**

Income taxes for the current year were $250,036 after deducting an adjustment of $19,125 relating to prior years. The substantial reduction of income taxes from $736,728 recorded in the previous year resulted primarily from claiming capital cost allowances on the East Kootenay Link expenditures during the year for tax purposes, whereas


depreciation on this pipeline, under the regulations presently set out by the Company's regulatory body, will not commence until the 1977 fiscal year. Income taxes have been provided as follows:

| | ($000's) 1976 | 1975 |
|---|---|---|
| Net income | | |
| before taxes (Inland) | **$4,983** | $4,769 |
| Deduct: | | |
| Interest during constr. | **564** | 530 |
| Excess C.C.A. and other timing differences | **3,891** | 2,969 |
| Other items (net) | **69** | (65) |
| | **$ 459** | $1,335 |
| Effective tax rate | **50.49%** | 53.12% |
| Income taxes — | | |
| Inland | **$ 213** | $ 704 |
| Subsidiaries | **37** | 33 |
| | **$ 250** | $ 737 |

The Federal 10% corporate surtax ended on April 30, 1975. The decrease in the Federal rate was partially offset by a 2% increase in the Provincial tax rate effective from January 1, 1976.

*Inland's Executive Vice-President R.B. Stokes is pictured above (left) discussing energy conservation on the set of a company-sponsored television program.*

**ENERGY CONSERVATION**

Although natural gas supply in British Columbia is more than adequate to fulfill domestic demand, your Company continues to support the concept of energy conservation. We have placed our full support behind energy conservation programs sponsored by the Federal Government and we have incorporated the theme of proper energy utilization into our advertising programs and into any presentations being made to groups in our service area.

**FINANCING**

On June 29, 1976 your Company completed a $10 million issue of 400,000 10% cumulative redeemable second preference shares with a par value of $25 per share, which netted

Artists conception of Kelowna Combined Centre

the Company approximately $9,560,000. The proceeds of this issue have been used to reduce short-term indebtedness which was incurred primarily for the construction of the East Kootenay Link. The Company has not finalized any plans for further financings at the present time, but has established a line of credit with its corporate bankers, enabling it to utilize either bank loans or issue its own commercial paper. These funds, along with internally generated funds, should provide the necessary cash requirements for the coming year.

## CAPITAL EXPENDITURES

Capital expenditures for the year under review totalled $15.2 million and consisted of $5.7 million for normal capital additions, $8.2 million for the second stage (70 miles) of the East Kootenay Link pipeline and $1.3 million for the Trail compressor station. The East Kootenay Link pipeline and compressor station went into service as scheduled in November of 1975, as your Company's major peak shaving facility.

## FUTURE CAPITAL EXPENDITURES

Your Company's capital budget for plant additions in the coming year amounts to approximately $9.7 million. In addition to routine plant additions amounting to $5.9 million, the budget allows for final cleanup of the East Kootenay Link project, the looping of a portion of the transmission line lateral serving the Salmon Arm area, and for the installation of a submerged pipeline crossing of the Okanagan Lake at Kelowna to reinforce the supply of gas to the Westbank and Lakeview Heights area. Also included in the forthcoming year's budget is service to Afton Mines Ltd. (NPL) near Kamloops and an upgrading of our facilities to serve a major increase in the gas requirements of Intercontinental Pulp and Paper Co. Ltd. at Prince George.

The Company intends, during the coming fiscal year, to construct a new building in the City of Kelowna. This new operations centre is required to meet the demands of the rapidly expanding area.

## SHARE DISTRIBUTION

Approximately 95% of the shareholders of Preference and Common stock of the Company are resident in Canada. The distribution of each class of shares is set out below:

| | Shareholders | Shares |
|---|---|---|
| Preference | | |
| Canada | 3,027 | 797,037 |
| U.S.A. | 16 | 2,078 |
| Others | 5 | 885 |
| | 3,048 | 800,000 |
| Common | | |
| Canada | 4,601 | 2,512,832 |
| U.S.A. | 276 | 75,839 |
| Others | 86 | 233,451 |
| | 4,963 | 2,822,122 |

## WHOLLY-OWNED SUBSIDIARIES

### Peace River Transmission Company Limited

The Company is an Inter-Provincial pipeline company and is subject to regulation by the National Energy Board. It purchases natural gas from the gathering system of Westcoast Transmission Company Limited, and delivers it to the outskirts of the City of Dawson Creek in northeastern British Columbia, where it is sold to Northland Utilities (B.C.) Limited for distribution in Dawson Creek and the surrounding area.

Natural gas sales for the year under review were 1,107,015 Mcf, as compared to 1,108,759 Mcf in the previous year. This slight decrease in sales was the result of weather which was 3% warmer than last year. Net income for the year was $35,491 compared to $28,671 in fiscal 1975.

### Grande Prairie Transmission Co. Ltd.

The Company is incorporated under the laws of the Province of Alberta and is subject to regulation by the Public Utilities Board of Alberta. It purchases natural gas from various fields north of Grande Prairie in the Peace River area of Alberta and transmits it for resale by Northwestern Utilities Limited to the City of Grande Prairie and other communities in the immediate area. Gas sales for the year under review were 1,996,365 Mcf which was marginally higher than last year's sales of 1,965,420 Mcf. This increase occurred in spite of weather that was 3% warmer than last year. Net income for the year was $8,503 compared to a loss of $5,294 in the previous year.

In May of 1976, the Company received permission from the Public Utilities Board of Alberta for an increase in its rates to Northwestern Utilities as a result of an increase in the Provincial Support Price for natural gas purchased at the wellhead. The flow-through of this increase had no net effect on the Company's earnings. During the year a new well in the Sexsmith area was tied into the system. There is continued drilling activity within the service area and the company is presently negotiating with producers to contract for additional reserves. The Northern Alberta Rape Seed Processors Co-op will start operation this year, and will add significantly to industrial natural gas sales.

### St. John Gas & Oil Co. Ltd. (NPL)

This subsidiary holds minor interests in natural gas and oil leases in northeastern British Columbia and participates in the production of natural gas and oil from these leases. Net income for the year amounted to $1,854 compared to $3,465 in the prior year.

### Inland Development Co. Ltd.

This subsidiary owns various properties in the Okanagan Valley, including an office building in the City of Kelowna. The Company has been relatively inactive during the year under review, and recorded a loss for the year of $20,528.

## TO OUR EMPLOYEES

Over the years the Company has experienced continued growth. During the current year, Inland employed an average of 249 employees, 68 of whom had in excess of ten years' service. Among those 68 long-service employees, are 26 individuals who have been employed since Inland commenced operations in 1957.

The major resource of any organization that conducts business is its people. However, in a report of this nature, it is impossible to record the personal contribution made by each and every employee. It is through your continued efforts and capabilities that our Company has been able to continually increase its effectiveness in the business place and the community. Therefore, the Board of Directors wish to recognize the effort made by each of you during the past year and thank you for your support and valued assistance.

For the Board of Directors

R. Lawtcliffe

Chairman of the Board

September 28, 1976.

Glass Manufacturing Plant

**INLAND NATURAL GAS CO. LTD.**
*and Wholly-owned Subsidiaries*

## CONSOLIDATED STATEMENT OF INCOME

### FOR THE YEAR ENDED JUNE 30

| | 1976 | 1975 |
|---|---|---|
| REVENUE | | |
| Sale of gas | **$37,471,711** | $33,825,713 |
| Transportation allowance | **296,700** | 296,700 |
| Other operating revenue | **528,355** | 410,552 |
| | **38,296,766** | 34,532,965 |
| EXPENSES | | |
| Purchase of gas | **20,516,544** | 19,488,555 |
| Operation and maintenance | **2,733,628** | 2,304,681 |
| Selling, general and administrative | **1,561,415** | 1,157,066 |
| Property, franchise and other taxes | **2,118,775** | 1,791,679 |
| Depreciation | **1,818,970** | 1,745,311 |
| Interest and expense on long-term debt | **4,166,524** | 2,903,876 |
| Other interest | **888,540** | 840,548 |
| Interest charged to construction | **(563,583)** | (529,712) |
| | **33,240,813** | 29,702,004 |
| Income before income taxes | **5,055,953** | 4,830,961 |
| Income taxes | **250,036** | 736,728 |
| NET INCOME | **$ 4,805,917** | $ 4,094,233 |
| EARNINGS PER COMMON SHARE | **$ 1.56** | $ 1.31 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

### FOR THE YEAR ENDED JUNE 30

| | 1976 | 1975 |
|---|---|---|
| BALANCE AT BEGINNING OF YEAR | **$12,729,121** | $11,135,915 |
| Net income | **4,805,917** | 4,094,233 |
| | **17,535,038** | 15,230,148 |
| Dividends on 5% preference shares—$1.00 per share | **400,000** | 400,000 |
| Dividends on common shares—$.80 per share in 1976; $.74 in 1975 | **2,257,698** | 2,088,370 |
| Amortization of preference share issue costs | **12,657** | 12,657 |
| | **2,670,355** | 2,501,027 |
| BALANCE AT END OF YEAR | **$14,864,683** | $12,729,121 |

See accompanying summary of accounting policies and notes.

## CONSOLIDATE
### AS AT

### ASSETS

| | 1976 | 1975 |
|---|---|---|
| CURRENT ASSETS | | |
| Temporary cash investment | $ – | $ 1,716,413 |
| Accounts receivable | 4,434,365 | 3,033,404 |
| Inventories of construction and operating materials and supplies, at cost | 1,451,421 | 1,608,955 |
| Prepaid expenses | 221,375 | 117,438 |
| | 6,107,161 | 6,476,210 |
| NON-CURRENT ASSETS | | |
| Mortgages and other long-term receivables | 100,668 | 98,651 |
| Investment in marketable securities, at cost (quoted market 1976 - $87,000; 1975 - $65,000) | 100,000 | 100,000 |
| Real estate held for resale, at cost | 268,163 | 237,269 |
| | 468,831 | 435,920 |
| PROPERTY, PLANT AND EQUIPMENT, at cost | | |
| Natural gas transmission lines and distribution systems | 97,666,901 | 74,906,104 |
| Plant, buildings and equipment | 5,014,157 | 4,805,716 |
| Land and land rights | 2,555,516 | 2,000,496 |
| Construction work in process | 461,077 | 10,095,077 |
| | 105,697,651 | 91,807,393 |
| Accumulated depreciation | 14,578,877 | 13,110,412 |
| | 91,118,774 | 78,696,981 |
| Interest in petroleum and natural gas properties | 169,949 | 159,171 |
| Accumulated depletion | 62,970 | 62,458 |
| | 106,979 | 96,713 |
| | 91,225,753 | 78,793,694 |
| OTHER ASSETS AND DEFERRED CHARGES | | |
| Unamortized preference share issue costs | 1,431,220 | 1,049,956 |
| Unamortized long-term debt issue costs | 939,805 | 1,090,260 |
| | 2,371,025 | 2,140,216 |
| | $100,172,770 | $ 87,846,040 |

See accompanying summary of accounting policies and notes.

## BALANCE SHEET
## NE 30

### LIABILITIES

| CURRENT LIABILITIES | 1976 | 1975 |
|---|---|---|
| Bank loan and short-term notes | **$ 1,186,938** | $ 2,579,584 |
| Accounts payable | **4,790,107** | 2,864,671 |
| Dividends payable | **100,000** | 100,000 |
| Income taxes | **204,606** | 6,905 |
| Property, franchise and other taxes accrued | **2,056,927** | 1,691,433 |
| Interest accrued on long-term debt | **522,103** | 492,845 |
| Current portion of long-term debt | **4,620,220** | 155,575 |
| | **13,480,901** | 7,891,013 |
| LONG-TERM DEBT (Note 1) | **45,521,846** | 50,920,566 |

### SHAREHOLDERS' EQUITY

| SHARE CAPITAL (Note 2) | | |
|---|---|---|
| 5% Cumulative redeemable preference shares, par value $20 per share<br>Authorized and issued: 400,000 shares | **8,000,000** | 8,000,000 |
| 10% Cumulative redeemable second preference shares, par value $25 per share<br>Authorized and issued: 400,000 shares | **10,000,000** | — |
| Common shares, par value $1 per share<br>Authorized: 5,000,000 shares<br>Issued: 2,822,122 shares | **2,822,122** | 2,822,122 |
| PREMIUM ON COMMON SHARES | **5,483,218** | 5,483,218 |
| RETAINED EARNINGS (Note 3) | **14,864,683** | 12,729,121 |
| | **41,170,023** | 29,034,461 |
| | **$100,172,770** | $ 87,846,040 |

Approved on behalf of the Board

R. Laidlaw Director

Director

**INLAND NATURAL GAS CO. LTD.**
*and Wholly-owned Subsidiaries*

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

## FOR THE YEAR ENDED JUNE 30

| SOURCE OF WORKING CAPITAL | **1976** | 1975 |
|---|---|---|
| Operations | | |
| Net income | **$ 4,805,917** | $ 4,094,233 |
| Non-cash charges (credits) to income | | |
| Depreciation and amortization | **1,873,635** | 1,792,320 |
| Other | **(109,000)** | – |
| Total from operations | **6,570,552** | 5,886,553 |
| Second preference shares issued | **10,000,000** | – |
| Long-term debt issued | | |
| First mortgage bonds | **–** | 12,000,000 |
| Mortgage | **–** | 347,500 |
| Other – net | **217,089** | (17,190) |
| | **16,787,641** | 18,216,863 |
| APPLICATION OF WORKING CAPITAL | | |
| Additions to property, plant and equipment | **14,392,029** | 13,962,266 |
| Dividends on preference and common shares | **2,657,698** | 2,488,370 |
| Reduction of long-term debt | **5,290,228** | 1,043,357 |
| Second preference share issue costs | **393,921** | – |
| Long-term debt issue costs | **12,702** | 394,595 |
| | **22,746,578** | 17,888,588 |
| INCREASE (DECREASE) IN WORKING CAPITAL | **(5,958,937)** | 328,275 |
| Working capital (deficit) at beginning of year | **(1,414,803)** | (1,743,078) |
| WORKING CAPITAL (DEFICIT) AT END OF YEAR | **$(7,373,740)** | $(1,414,803) |

See accompanying summary of accounting policies and notes.

## AUDITORS' REPORT

**To the Shareholders**
**Inland Natural Gas Co. Ltd.**

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. and its subsidiaries as at June 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
August 30, 1976

Thorne Riddell & Co.
Chartered Accountants

# SUMMARY OF ACCOUNTING POLICIES

The Company and its transmission subsidiaries are regulated utilities and their accounting records and practices conform to the requirements of their respective regulatory authority. Significant accounting policies are set out below:

### Principles of Consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries Peace River Transmission Company Limited, Grande Prairie Transmission Co. Ltd., Inland Development Co. Ltd., St. John Gas & Oil Co. Ltd. (N.P.L.), Inland Transmission Co. Ltd. and Inland Development (1957) Co. Ltd., all of which are wholly-owned.

### Property, Plant and Equipment

The cost of utility plant additions, major renewals and betterments, including direct costs, general and administrative costs allocable to construction and interest on funds used during construction are capitalized. The cost of depreciable utility plant retired together with removal costs less salvage is charged to accumulated depreciation. Maintenance and repair costs of a routine nature are charged to expense as incurred.

### Depreciation

Depreciation of plant in service is computed on a straight-line basis whereby rates for each class of plant, designed to amortize the cost of the assets over their estimated useful lives, are applied to the Company's investment in such plant at the beginning of the year. The application of these rates for the year ended June 30, 1976 results in a composite rate of 2.34%. Rates for major plant classifications are as follows:

| | |
|---|---|
| Transmission and distribution mains | 2% |
| Meters, compressors, buildings, measuring and regulating equipment | 3% |
| General equipment | 5% to 15% |

### Other Assets and Deferred Charges

Long-term debt issue costs are amortized over the original lives of the related debt. Gains on purchase of debt securities for sinking funds are amortized over the remaining lives of the related debt as a reduction of debt charges.

5% Preference share issue costs are amortized to retained earnings at the prescribed annual rate of 1%.

10% Second preference share issue costs will be amortized to retained earnings over a 21 year period commencing July 1, 1976.

### Income Taxes

The companies claim capital cost allowance and certain other deductions for income tax purposes in excess of the related amounts recorded as expense in their accounts, thereby reducing income taxes which would otherwise have been charged against income by $1,969,000 for the 1976 fiscal year and $14,899,000 in total to June 30, 1976. In addition, as a result of the foregoing, tax losses carried forward to future years in subsidiary companies amount to $120,464. Since only the taxes currently payable are claimed for regulatory purposes in setting consumer rates, as has been approved by the companies' regulatory authorities, the companies follow the taxes payable basis and make no provision for such reductions.

### Pension Plan

The companies have pension plans for their employees which have been revised and amended from time to time. The plans require that actuarial studies be prepared every three years. The most recent actuarial valuations were prepared as at December 31, 1972 for the plan for salaried employees and as at April 1, 1973 for the plan for other employees. Current triennial actuarial studies have not been finalized; however, preliminary reports from the actuaries indicate that there are no unfunded liabilities for past service benefits.

### Earnings Per Common Share

Earnings per common share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Dividend requirements on preference shares of $400,000 each year are deducted from net income for purposes of these calculations.

There would be no material dilution of earnings per share if the outstanding common share purchase warrants had been exercised during the year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Long-Term Debt

| | Total Outstanding | Current Liability | Long-Term 1976 | Long-Term 1975 |
|---|---|---|---|---|
| Inland Natural Gas Co. Ltd. | | | | |
| First mortgage sinking fund bonds | | | | |
| 6¼% Series C, due May 1, 1983 | $14,081,000 | $ 15,000 | $14,066,000 | $14,729,500 |
| 8% Series D, due December 31, 1989 | 4,667,000 | 101,000 | 4,566,000 | 4,667,000 |
| 8¼% Series E, due November 1, 1991 | 7,250,000 | — | 7,250,000 | 7,380,000 |
| 8⅜% Series F, due April 15, 1993 | 7,500,000 | 120,000 | 7,380,000 | 7,500,000 |
| 11⅛% Series G, due June 15, 1995 | 12,000,000 | 165,000 | 11,835,000 | 12,000,000 |
| Convertible sinking fund debentures | | | | |
| 5½% Series A, due February 15, 1977 | 4,151,000 | 4,151,000 | — | 4,151,000 |
| | 49,649,000 | 4,552,000 | 45,097,000 | 50,427,500 |
| Inland Development Co. Ltd. | | | | |
| 9% Mortgage, repayable in monthly instalments of $2,001 based on a 20 year term to 1991 | 202,291 | 6,390 | 195,901 | 202,291 |
| 9% Mortgage, repayable in annual instalments of: 1977 to 1979 — $88,000; 1980 — $96,017 | 290,775 | 61,830 | 228,945 | 290,775 |
| | $50,142,066 | $4,620,220 | $45,521,846 | $50,920,566 |

The first mortgage bonds are secured by a Trust Deed which constitutes in favour of the Trustee a first, fixed and specific mortgage and charge of and upon certain property of the Company and a first floating charge on the undertaking and all other property and assets, present and future of the Company, in the manner and to the extent set forth in the Trust Deed.

The Series A debentures are (inter alia) unsecured obligations of the Company but are subject to restrictions of the Trust Indenture dated February 15, 1957. The convertible feature of the debentures expired November 15, 1967.

The trust agreements relating to the bonds and debentures require the Company to establish sinking funds to retire various amounts of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated amount of such securities. Sinking fund requirements and debt maturities over the next five years, after giving effect to purchases and retirements as at June 30, 1976 are: 1977 — $4,552,000; 1978 — $1,282,000; 1979 — $1,380,000; 1980 — $1,482,000; 1981 — $1,598,000.

### 2. Share Capital

a) 5% Cumulative Redeemable Preference Shares

On June 8, 1976 the Memorandum of the Company was amended cancelling 100,000 unissued shares. The 5% preference shares are redeemable at the option of the Company at a price of $21 per share.

b) 10% Cumulative Redeemable Second Preference Shares

On June 9, 1976 the Memorandum and Articles of the Company were amended creating 400,000 such shares of the par value of $25 each. On June 29, 1976 these shares were issued and sold for a consideration of $10,000,000.

The 10% second preference shares are not redeemable before July 1, 1981 but will be redeemable thereafter at the option of the Company at a price of $26.25 per share if redeemed on or before June 30, 1982, and at prices reducing annually to $25 per share if redeemed after June 30, 1986.

The Company is required, in each calendar quarter commencing with the third calendar quarter of 1977, to purchase for cancellation 5,000 10% second preference shares in the open market at prices not exceeding $25 per share. If, in any calendar quarter, the Company is unable to purchase 5,000 shares, its purchase obligations carry over to succeeding calendar quarters for a total of 20,000 shares during each 12 month period ending June 30, after which date the Company has no further obligation to purchase shares for that period ending June 30.

c) Common Shares

The Series D bonds were issued with share purchase warrants which entitled holders to purchase common shares of the Company on or before June 15, 1979 at $17.50 per share, such price being subject to adjustment in certain events. On June 21, 1971 following the issue of common shares pursuant to the rights offering, the warrant exercise price was adjusted to $16.83 per share. 75,000 unissued shares have been reserved to meet this commitment.

**3. Retained Earnings**

The Trust Deed relating to the First Mortgage Sinking Fund Bonds contains certain restrictions upon the payment of dividends. At June 30, 1976 all of the Company's retained earnings were free of such restrictions.

**4. Remuneration of Directors and Senior Officers**

The aggregate direct remuneration paid by the Company to directors and senior officers for the year ended June 30, 1976 was $242,850 (1975 — $215,259).

**5. Anti-Inflation Act**

The Company is subject to controls on dividends to the holders of the Company's common shares under the federal government's anti-inflation guidelines which became effective October 14, 1975.

**6. Rate Matters**

By an order dated January 8, 1976 and amended by order dated January 14, 1976, the British Columbia Energy Commission allowed the Company to amend its filed tariff schedules to incorporate an interim rate increase of 7¢ per Mcf to all classes of customers. This increase became effective on January 2, 1976 or on such later date as may allow for the completion at the existing billing rates of any billing cycle in effect prior to January 1, 1976. Revenues received from the interim rate increase, totalling approximately $1,348,000 at June 30, 1976, are subject to refund together with interest at 9% if subsequently ordered by the Commission. This interim rate increase will remain in effect until the Commission has considered the application to be filed by the Company for an order establishing the appropriate rate base, cost of service and return on rate base to the Company.

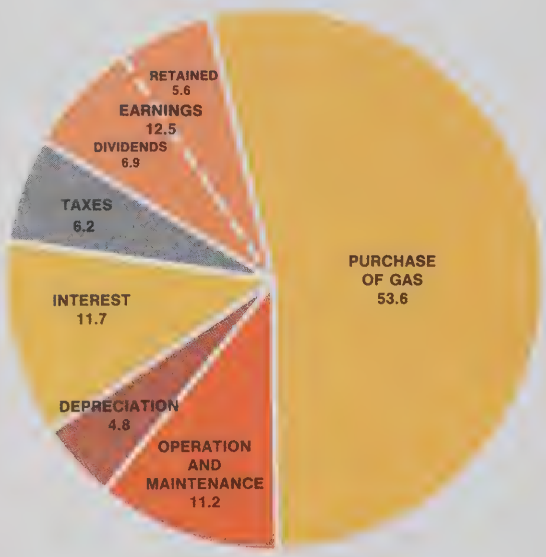
Effective April 1, 1976, the Company's gas supplier, Westcoast Transmission Company Limited, placed in effect a further rate increase. The Company designed and implemented new rates to all customer classifications which were approved by the British Columbia Energy Commission and will recover, on an annual basis, all additional costs relative to this price increase.

**7. Capital Expenditures**

Capital expenditures for 1977 are estimated at $9,700,000. Cash requirements will be provided by established corporate lines of credit together with cash from operations pending future financing.

## COMPARATIVE STATEMENT O

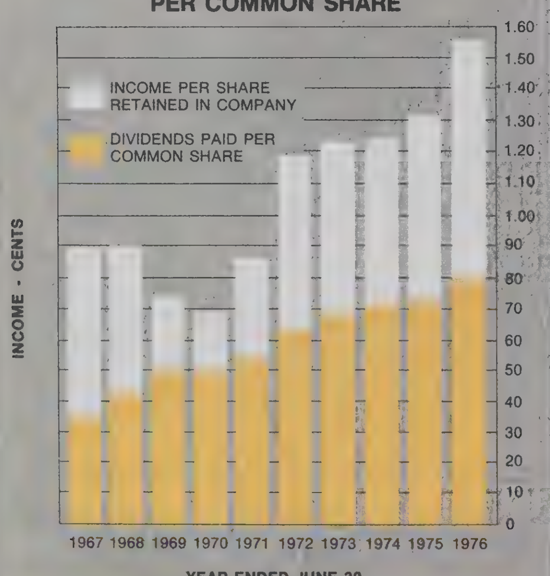
DISTRIBUTION OF GROSS REVENUE




YEAR ENDED JUNE 30, 1976

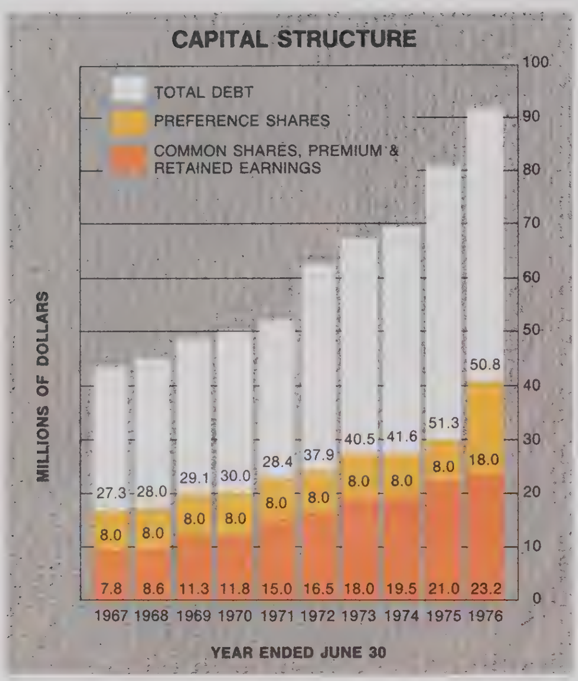
| | | 1976 |
|---|---|---|
| REVENUE | | |
| Sale of gas | | $35,786,016 |
| Transportation allowance | | 296,700 |
| Other income | | 445,086 |
| | | 36,527,802 |
| EXPENSES | | |
| Purchase of gas | | 19,423,365 |
| Operation and maintenance | | 4,042,170 |
| Property and other taxes | | 1,153,879 |
| Franchise fees | | 922,528 |
| Depreciation | | 1,732,656 |
| Interest on borrowed money | | 4,982,241 |
| Amortization of long-term debt issue costs | | 54,665 |
| Interest charged to construction (credit) | | (563,583 |
| | | 31,747,921 |
| INCOME BEFORE INCOME TAXES | | 4,779,881 |
| INCOME TAXES | | 212,678 |
| NET INCOME | | 4,567,203 |
| INCOME FROM SUBSIDIARY COMPANIES (net) | | 238,714 |
| NET CONSOLIDATED INCOME | $ | 4,805,917 |
| DIVIDENDS | | |
| Preference shares | $ | 400,000 |
| Common shares | | 2,257,698 |
| Total dividends | $ | 2,657,698 |
| NUMBER OF COMMON SHARES (average) | | 2,822,122 |
| EARNINGS PER COMMON SHARE (after provision for preference dividends) | $ | 1.56 |
| DIVIDENDS PER COMMON SHARE | $ | .80 |

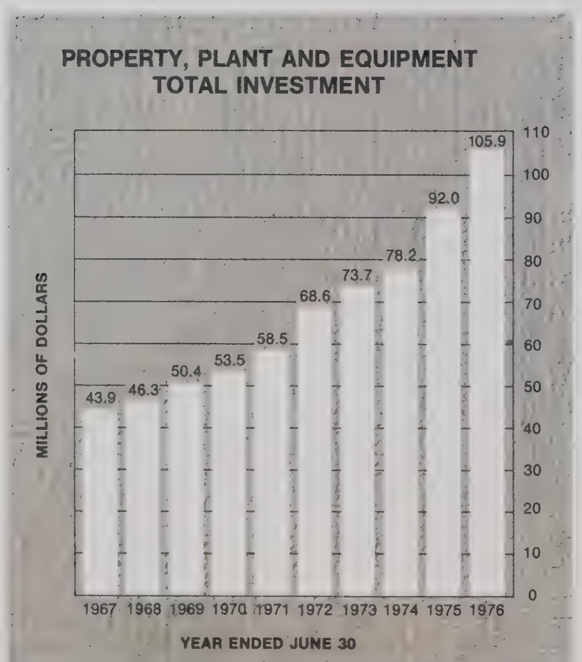
NET INCOME AND DIVIDENDS PER COMMON SHARE



## CONSOLIDATED INCOME AND DIVIDENDS

| 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 |
|---|---|---|---|---|---|---|---|---|
| 32,414,184 | 27,272,202 | 22,664,204 | 18,269,877 | 15,544,855 | 14,146,424 | 13,960,737 | 12,545,300 | 12,234,227 |
| 296,700 | 296,700 | 288,880 | 260,023 | 234,030 | 229,032 | 199,400 | 151,800 | 151,800 |
| 328,971 | 488,703 | 352,712 | 331,191 | 242,211 | 219,627 | 259,489 | 275,416 | 278,255 |
| 33,039,855 | 28,057,605 | 23,305,796 | 18,861,091 | 16,021,096 | 14,595,083 | 14,419,626 | 12,972,516 | 12,664,282 |
| 18,663,501 | 14,155,016 | 10,403,343 | 8,117,278 | 6,949,267 | 6,650,914 | 6,702,964 | 5,971,774 | 5,694,852 |
| 3,197,242 | 2,723,477 | 2,382,680 | 2,015,214 | 1,713,627 | 1,655,258 | 1,764,769 | 1,486,372 | 1,618,442 |
| 920,547 | 791,251 | 650,950 | 541,075 | 475,903 | 430,785 | 386,764 | 346,214 | 316,294 |
| 839,649 | 649,628 | 455,525 | 381,973 | 333,279 | 258,094 | 257,692 | 211,725 | 199,773 |
| 1,661,278 | 1,554,102 | 1,447,087 | 1,192,131 | 1,154,571 | 1,037,895 | 965,584 | 916,347 | 868,390 |
| 3,678,765 | 3,019,393 | 2,662,467 | 2,331,595 | 1,956,895 | 1,948,695 | 1,791,638 | 1,708,993 | 1,680,905 |
| 47,009 | 60,190 | 63,323 | 67,179 | 67,157 | 74,994 | 97,625 | 97,215 | 97,215 |
| (529,712) | (15,240) | (38,663) | (264,894) | (24,228) | (18,806) | (25,023) | (8,340) | (14,188) |
| 28,478,279 | 22,937,817 | 18,026,712 | 14,381,551 | 12,626,471 | 12,037,829 | 11,942,013 | 10,730,300 | 10,461,683 |
| 4,561,576 | 5,119,788 | 5,279,084 | 4,479,540 | 3,394,625 | 2,557,254 | 2,477,613 | 2,242,216 | 2,202,599 |
| 703,700 | 1,446,269 | 1,495,561 | 994,769 | 956,362 | 594,511 | 490,580 | – | – |
| 3,857,876 | 3,673,519 | 3,783,523 | 3,484,771 | 2,438,263 | 1,962,743 | 1,987,033 | 2,242,216 | 2,202,599 |
| 236,357 | 216,009 | 99,708 | 281,130 | 207,694 | 179,306 | 215,613 | 275,547 | 286,423 |
| 4,094,233 | 3,889,528 | 3,883,231 | 3,765,901 | 2,645,957 | 2,142,049 | 2,202,646 | 2,517,763 | 2,489,022 |
| 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2,088,370 | 2,031,928 | 1,947,264 | 1,777,937 | 1,414,514 | 1,285,921 | 1,228,367 | 995,191 | 819,569 |
| 2,488,370 | 2,431,928 | 2,347,264 | 2,177,937 | 1,814,514 | 1,685,921 | 1,628,367 | 1,395,191 | 1,219,569 |
| 2,822,122 | 2,822,122 | 2,822,122 | 2,822,122 | 2,578,100 | 2,571,843 | 2,437,550 | 2,341,625 | 2,341,625 |
| 1.31 | 1.24 | 1.23 | 1.19 | .87 | .68 | .74 | .90 | .89 |
| .74 | .72 | .69 | .63 | .55 | .50 | .50 | .42½ | .35 |



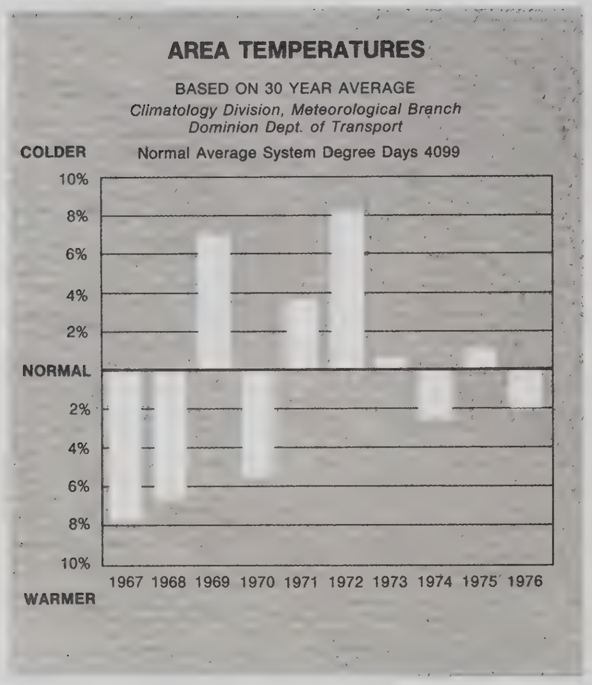

# CONSOLIDATED BALANC

| | 1976 |
|---|---|
| MILES OF COMPANY OWNED LINES | |
| Transmission | 889 |
| Distribution | 1,211 |
| Services | 937 |
| Transmission-subsidiaries | 122 |
| UTILITY PLANT ($000) | |
| Transmission | $53,981 |
| Distributions | 43,613 |
| Stand-by | 882 |
| General | 2,728 |
| Construction work in process | 461 |
| Total utility plant | 101,665 |
| SUBSIDIARIES' PLANT | 4,203 |
| | 105,868 |
| ACCUMULATED DEPRECIATION | |
| Inland Natural Gas Co. Ltd | 13,494 |
| Subsidiary companies (including depletion) | 1,148 |
| | 14,642 |
| NET CONSOLIDATED PLANT | $91,226 |
| CAPITALIZATION ($000) | |
| First mortgage bonds | $45,498 |
| Debentures | 4,151 |
| Short-term notes and bank loan (net) | 1,187 |
| Total debt | 50,836 |
| Preference shares | 18,000 |
| Common shares | 2,822 |
| Premium on common shares | 5,483 |
| Retained earnings | 14,865 |
| | $92,006 |
| PERCENT OF TOTAL CAPITALIZATION | |
| First mortgage bonds | 49.4 |
| Debentures | 4.5 |
| Short-term notes and bank loan (net) | 1.3 |
| Total percent of debt | 55.2 |
| Preference shares | 19.6 |
| Common shares | 3.1 |
| Premium on common shares | 5.9 |
| Retained earnings | 16.2 |
| | 100.0 |
| RATIOS | |
| First mortgage bond interest — times earned | 2.62 |
| Total debt interest — times earned | 2.02 |
| Preference dividends — times earned | 12.01 |

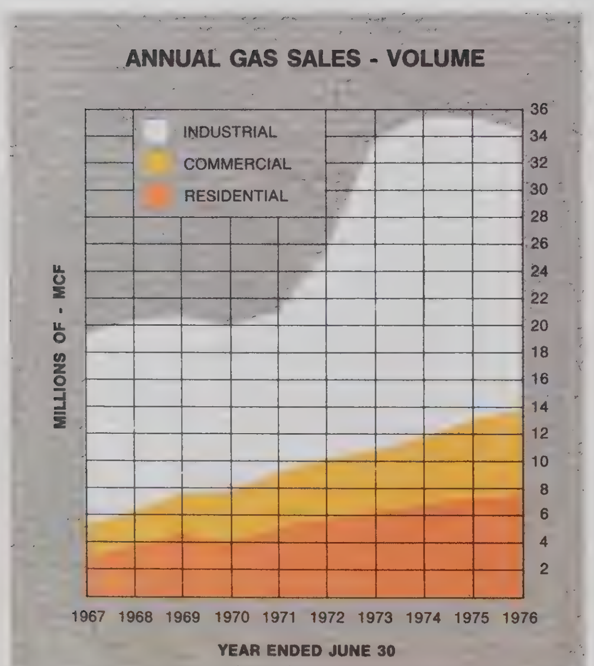
## HEET INFORMATION

| 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 |
|---|---|---|---|---|---|---|---|---|
| 816 | 781 | 777 | 769 | 624 | 603 | 559 | 481 | 471 |
| 1,141 | 1,082 | 1,000 | 898 | 831 | 778 | 691 | 626 | 576 |
| 871 | 814 | 740 | 671 | 614 | 569 | 526 | 491 | 458 |
| 122 | 116 | 116 | 115 | 115 | 115 | 115 | 115 | 109 |
| | | | | | | | | |
| 34,839 | 34,047 | 33,190 | 31,680 | 22,552 | 22,330 | 21,046 | 19,062 | 18,406 |
| 39,322 | 36,374 | 33,000 | 29,558 | 26,820 | 25,420 | 23,005 | 21,510 | 19,940 |
| 882 | 882 | 883 | 913 | 364 | 364 | 362 | 361 | 357 |
| 2,671 | 2,601 | 2,537 | 2,528 | 2,597 | 2,605 | 2,522 | 2,197 | 2,177 |
| 10,095 | 739 | 618 | 591 | 3,499 | 134 | 896 | 615 | 508 |
| 87,809 | 74,643 | 70,228 | 65,270 | 55,832 | 50,853 | 47,831 | 43,745 | 41,388 |
| 4,157 | 3,517 | 3,470 | 3,343 | 2,708 | 2,688 | 2,570 | 2,512 | 2,496 |
| 91,966 | 78,160 | 73,698 | 68,613 | 58,540 | 53,541 | 50,401 | 46,257 | 43,884 |
| | | | | | | | | |
| 12,106 | 10,594 | 9,267 | 8,225 | 7,277 | 6,615 | 5,726 | 4,862 | 4,017 |
| 1,066 | 989 | 912 | 844 | 788 | 733 | 680 | 632 | 581 |
| 13,172 | 11,583 | 10,179 | 9,069 | 8,065 | 7,348 | 6,406 | 5,494 | 4,598 |
| 78,794 | 66,577 | 63,519 | 59,544 | 50,475 | 46,193 | 43,995 | 40,763 | 39,286 |
| | | | | | | | | |
| 46,277 | 35,137 | 35,810 | 28,960 | 21,943 | 22,567 | 23,478 | 18,894 | 19,285 |
| 4,151 | 4,384 | 4,623 | 4,879 | 5,110 | 5,360 | 5,600 | 5,840 | 6,080 |
| 863 | 2,116 | 76 | 4,071 | 1,300 | 2,031 | — | 3,258 | 2,000 |
| 51,291 | 41,637 | 40,509 | 37,910 | 28,353 | 29,958 | 29,078 | 27,992 | 27,365 |
| 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| 2,822 | 2,822 | 2,822 | 2,822 | 2,822 | 2,572 | 2,572 | 2,342 | 2,342 |
| 5,483 | 5,483 | 5,483 | 5,483 | 5,483 | 3,231 | 3,231 | 1,159 | 1,159 |
| 12,729 | 11,136 | 9,691 | 8,168 | 6,758 | 6,013 | 5,557 | 5,059 | 4,292 |
| 80,325 | 69,078 | 66,505 | 62,383 | 51,416 | 49,774 | 48,438 | 44,552 | 43,158 |
| | | | | | | | | |
| 57.6 | 50.8 | 53.8 | 46.4 | 42.7 | 45.3 | 48.5 | 42.4 | 44.7 |
| 5.2 | 6.3 | 7.0 | 7.8 | 9.9 | 10.8 | 11.5 | 13.1 | 14.1 |
| 1.1 | 3.2 | .1 | 6.5 | 2.5 | 4.1 | — | 7.3 | 4.6 |
| 63.9 | 60.3 | 60.9 | 60.7 | 55.1 | 60.2 | 60.0 | 62.8 | 63.4 |
| 10.0 | 11.6 | 12.0 | 12.8 | 15.5 | 16.1 | 16.5 | 18.0 | 18.5 |
| 3.5 | 4.1 | 4.2 | 4.5 | 5.5 | 5.1 | 5.3 | 5.2 | 5.4 |
| 6.8 | 7.9 | 8.3 | 8.8 | 10.7 | 6.5 | 6.7 | 2.6 | 2.7 |
| 15.8 | 16.1 | 14.6 | 13.2 | 13.2 | 12.1 | 11.5 | 11.4 | 10.0 |
| 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | | | | | | | | |
| 3.30 | 3.22 | 3.80 | 3.89 | 3.81 | 3.09 | 3.87 | 3.62 | 3.50 |
| 2.32 | 2.78 | 3.04 | 3.09 | 2.91 | 2.48 | 2.60 | 2.54 | 2.55 |
| 10.24 | 9.72 | 9.71 | 9.41 | 6.62 | 5.36 | 5.51 | 6.29 | 6.22 |

# COMPARATIVE STATEMENT OF SALE




| | 1976 |
|---|---|
| REVENUE ($000) | |
| Residential | $10,561 |
| Commercial | 8,318 |
| Small industrial | 5,053 |
| Large industrial | 11,854 |
| Total natural gas revenue | $35,786 |
| SALES VOLUME (MMcf) | |
| Residential | 7,522 |
| Commercial | 6,221 |
| Small industrial | 4,723 |
| Large industrial | 16,156 |
| Total natural gas sales volume | 34,622 |
| CUSTOMERS AT YEAR END | |
| Residential | 59,300 |
| Commercial | 8,034 |
| Small industrial | 100 |
| Customers at year end | 67,434 |
| CUSTOMER STATISTICS | |
| Average use per customer (Mcf) | |
| Residential | 132 |
| Commercial | 802 |
| Average rate per Mcf | |
| Residential | $1.40 |
| Commercial | 1.34 |
| COST OF NATURAL GAS PURCHASED ($000) | $19,423 |
| VOLUME OF NATURAL GAS PURCHASED (MMcf) | 34,247 |
| MAXIMUM DAY SENDOUT (Mcf) | |
| Including interruptible | 157,966 |
| DEGREE DAYS (base 18°C.) | 4,018 |
| PAYROLL STATISTICS | |
| Wages and benefits ($000) | $ 4,887 |
| Number of employees (average) | 249 |




***excluding subsidiary companies**

## PURCHASES AND OTHER STATISTICS*

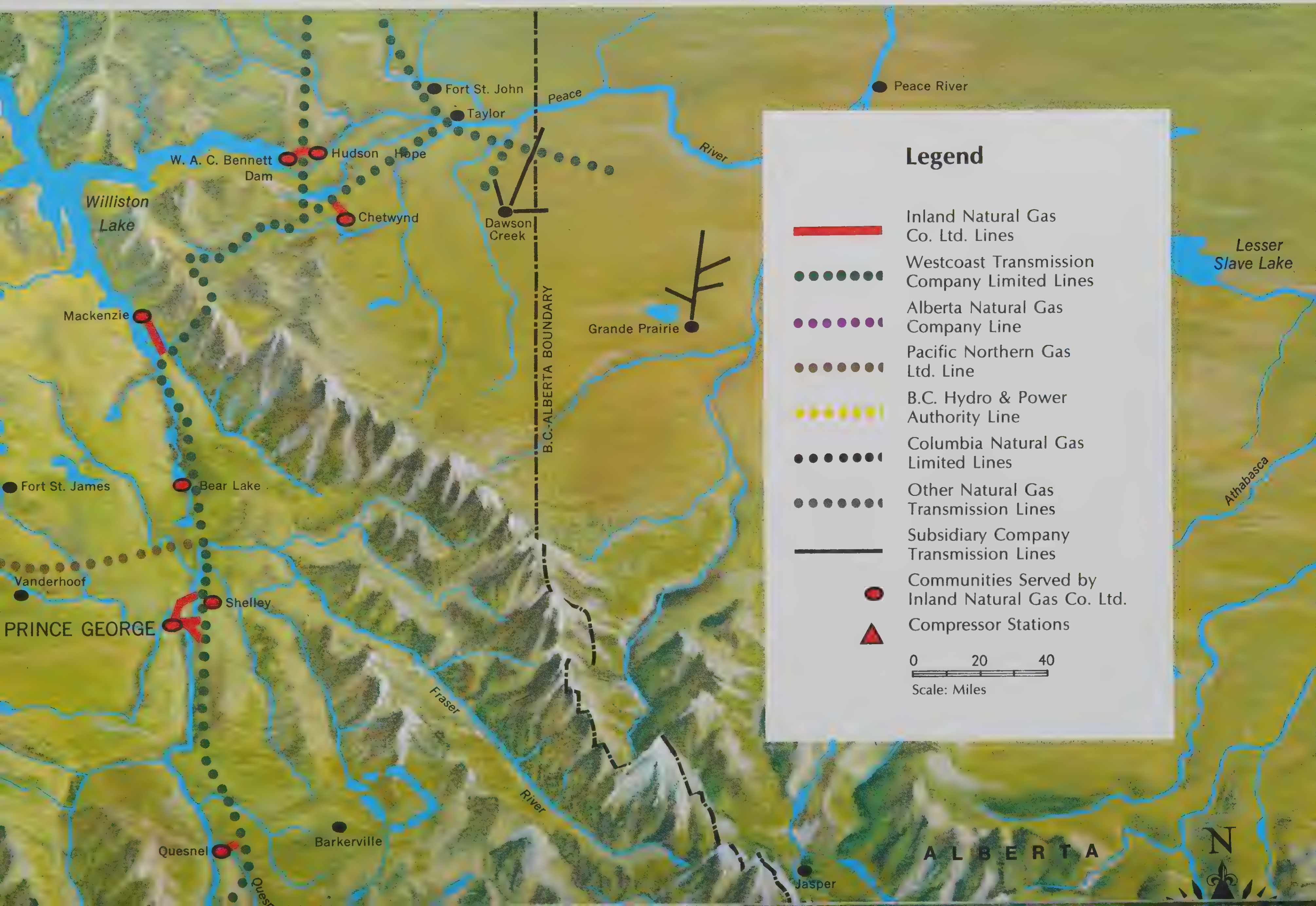
| 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 |
|---|---|---|---|---|---|---|---|---|
| 9,531 | 7,633 | 6,406 | 6,224 | 5,477 | 4,738 | 4,645 | 4,022 | 3,907 |
| 7,567 | 5,759 | 4,593 | 4,375 | 4,226 | 3,566 | 3,316 | 2,748 | 2,391 |
| 3,787 | 3,509 | 3,158 | 2,426 | 1,452 | 1,272 | 1,419 | 1,142 | 1,238 |
| 11,529 | 10,371 | 8,507 | 5,245 | 4,390 | 4,570 | 4,581 | 4,633 | 4,698 |
| 32,414 | 27,272 | 22,664 | 18,270 | 15,545 | 14,146 | 13,961 | 12,545 | 12,234 |
| 7,173 | 6,527 | 6,020 | 5,604 | 4,794 | 4,083 | 4,200 | 3,462 | 3,079 |
| 5,959 | 5,207 | 4,753 | 4,510 | 4,366 | 3,630 | 3,389 | 2,702 | 2,295 |
| 3,847 | 4,081 | 4,188 | 3,415 | 2,124 | 1,892 | 2,050 | 1,688 | 1,842 |
| 18,516 | 19,721 | 18,700 | 11,311 | 9,635 | 10,394 | 10,856 | 12,218 | 12,543 |
| 35,495 | 35,536 | 33,661 | 24,840 | 20,919 | 19,999 | 20,495 | 20,070 | 19,759 |
| 54,910 | 51,027 | 45,870 | 41,094 | 36,972 | 34,174 | 31,275 | 29,495 | 27,352 |
| 7,481 | 6,955 | 6,362 | 5,800 | 5,360 | 5,121 | 4,635 | 4,318 | 4,013 |
| 90 | 86 | 90 | 98 | 62 | 51 | 69 | 78 | 79 |
| 62,481 | 58,068 | 52,322 | 46,992 | 42,394 | 39,346 | 35,979 | 33,891 | 31,444 |
| 135 | 135 | 138 | 144 | 135 | 125 | 138 | 122 | 118 |
| 826 | 782 | 782 | 808 | 833 | 744 | 756 | 649 | 596 |
| 1.33 | 1.17 | 1.06 | 1.11 | 1.14 | 1.16 | 1.11 | 1.16 | 1.27 |
| 1.27 | 1.11 | 0.97 | 0.97 | 0.97 | 0.98 | 0.98 | 1.02 | 1.04 |
| 18,664 | 14,155 | 10,403 | 8,117 | 6,949 | 6,651 | 6,703 | 5,972 | 5,695 |
| 35,111 | 35,169 | 33,120 | 24,430 | 20,858 | 20,040 | 20,507 | 19,823 | 19,387 |
| 148,233 | 136,485 | 127,926 | 105,869 | 92,848 | 90,839 | 97,944 | 84,624 | 80,447 |
| 4,140 | 4,002 | 4,130 | 4,443 | 4,257 | 3,865 | 4,391 | 3,827 | 3,776 |
| 3,831 | 3,142 | 2,625 | 2,328 | 1,889 | 1,809 | 1,745 | 1,481 | 1,447 |
| 240 | 224 | 213 | 205 | 188 | 195 | 210 | 200 | 200 |

# COMMUNITIES SERVED

| YEAR SERVICE COMMENCED | |
|---|---|
| 1957 | Quesnel |
| | Williams Lake |
| | 100 Mile House |
| | Merritt |
| | Kamloops |
| | Armstrong |
| | Enderby |
| | Salmon Arm and Canoe |
| | Vernon |
| | Kelowna |
| | Summerland |
| | Penticton |
| | Oliver |
| | Osoyoos |
| | Grand Forks |
| | Rossland |
| | Trail and Tadanac |
| | Warfield |
| | Castlegar |
| | Nelson |
| 1958 | Chetwynd |
| | Prince George |
| 1960 | Shelley |
| 1961 | Oyama |
| 1962 | Lac La Hache |
| 1964 | Savona |
| | Winfield |
| | Okanagan Falls |
| 1965 | W.A.C. Bennett Damsite and Hudson Hope |
| | Robson |
| 1967 | Mackenzie |
| 1968 | Princeton |
| | Falkland |
| | Coldstream |
| | Peachland |
| | Westbank |
| | Naramata |
| | Midway |
| | Lakeview Heights |
| 1969 | Clinton |
| | Lumby |
| 1971 | Logan Lake |
| | Cache Creek |
| | Ashcroft |
| 1972 | Keremeos |
| 1974 | Hedley |
| 1975 | Salmo |
| | Fruitvale |
| | Montrose |

Fold Out For System Map

# INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA



BRITISH
COLUMBIA
Gibraltar Mines
Lake
Williams Lake
Lac La Hache
100 Mile House
Fraser
River
Clinton
Cache Creek
Savona
Ashcroft
Highland Valley
Logan Lake
KAMLOOPS
Salmon Arm
Enderby
Armstrong
Falkland
Shuswap Lake
VERNON
Coldstream
Lumby
Okanagan Lake
Oyama
Winfield
KELOWNA
Westbank
Peachland
Summerland
Naramata
PENTICTON
Merritt
Princeton
Hedley
Keremeos
Okanagan Falls
Oliver
Osoyoos
Midway
Grand Forks
Rossland
TRAIL
Castlegar
Robson
NELSON
Salmo
Fruitvale
Montrose
Creston
Arrow Lake
Kootenay Lake
Revelstoke
Columbia Icefields
Columbia River
Lake Louise
Banff
Skookumchuck
Kimberley
Cranbrook
Fernie
Crowsnest
Vancouver
Nanaimo
Victoria
Bellingham
CANADA-U.S.A. BORDER
WASHINGTON
IDAHO
MONTANA

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deliveries to Inland and increase deliveries to the U.S. border. The Inland/Westcoast transportation agreement has been approved by the B.C. Energy Commission and the National Energy Board of Canada, and deliveries of gas commenced on January 29, 1977.

**General**

The upcoming rate hearing is extremely important to your Company. While the earnings per common share for the six months under review show an increase over the comparable period for the prior year, estimated earnings for the next six months will be somewhat lower than last year due to increased costs and the impact of the additional preference dividends. These reduced earnings can only be restored and increased by a rate increase to our customers.

For the Board of Directors

Chairman of the Board

President and Chief Operating Officer

*Vancouver, B.C.*
*February 2, 1977*



File

# INLAND

## NATURAL GAS CO. LTD.

## INTERIM REPORT

DECEMBER 31, 1976

# INLAND NATURAL GAS CO.

## CONSOLIDATED STATEMENT OF INCOME

| | Six Months Ended Dec. 31, 1976 | Dec. 31, 1975 |
|---|---|---|
| REVENUE | | |
| Sale of gas | $ 22,947,370 | $ 14,786,338 |
| Transportation allowance | 148,350 | 148,350 |
| Other operating revenue | 261,506 | 224,418 |
| | 23,357,226 | 15,159,106 |
| EXPENSES | | |
| Purchase of gas | 13,565,594 | 8,219,539 |
| Operation and maintenance | 1,623,644 | 1,174,207 |
| Selling, general and administrative | 891,269 | 648,166 |
| Property, franchise and other taxes | 1,184,225 | 896,988 |
| Depreciation | 1,159,039 | 933,548 |
| Interest and expense on long-term debt | 2,052,669 | 2,101,244 |
| Other interest | 196,217 | 320,648 |
| Interest charged to construction | (7,159) | (562,850) |
| | 20,665,498 | 13,731,490 |
| Income before income taxes | 2,691,728 | 1,427,616 |
| Income taxes | 387,407 | 16,732 |
| NET INCOME | 2,304,321 | 1,410,884 |
| Dividends declared on preference shares | 744,000 | 200,000 |
| | $ 1,560,321 | $ 1,210,884 |
| EARNINGS PER COMMON SHARE | $ 0.55 | $ 0.43 |
| Common shares outstanding on December 31st | 2,822,122 | 2,822,122 |
| Total gas sales volume (Mcf) | | |
| - Inland | 19,481,397 | 14,128,442 |
| - Subsidiaries | 1,353,252 | 1,396,258 |
| | 20,834,649 | 15,524,700 |

## CONSO

SOURCE OF WOR
Net income for th
Add-Non-cash cha
Depreciation a
Amortization o
issue costs ...

Gain on purchase
for sinking fun

APPLICATION OF
Additions to prop
and equipment
Increase in non-c
Reduction of long
Dividends on pre
common shares
Cost of issuing se

DECREASE IN W
Working capital de
WORKING CAPIT
AT DEC. 31 ....

Approved on beh

*The above statements have been prepared from the books of account*

).  *and wholly-owned subsidiary companies*

**ATED STATEMENT OF CHANGES**
**I FINANCIAL POSITION**

| | Six Months Ended Dec. 31, 1976 | Dec. 31, 1975 |
|---|---|---|
| CAPITAL | | |
| nonths .................. | **$ 2,304,321** | $ 1,410,884 |
| o income | | |
| letion .................. | **1,159,039** | 933,548 |
| -term debt | | |
| .............................. | **17,408** | 33,557 |
| | **3,480,768** | 2,377,989 |
| ng-term debt | | |
| .............................. | **16,682** | — |
| | **3,497,450** | 2,377,989 |
| RKING CAPITAL | | |
| plant | | |
| .............................. | **4,662,307** | 10,698,818 |
| assets .................. | **20,842** | 26,263 |
| debt ..................... | **444,901** | 239,230 |
| e and | | |
| .............................. | **1,872,849** | 1,328,849 |
| s .......................... | **16,634** | 12,184 |
| | **7,017,533** | 12,305,344 |
| NG CAPITAL ...... | **3,520,083** | 9,927,355 |
| June 30 ............... | **7,373,740** | 1,414,803 |
| EFICIT | | |
| .............................. | **$10,893,823** | $11,342,158 |

the Board

Director

Director

*unaudited.*

## TO OUR SHAREHOLDERS

**Earnings**

A comparative consolidated statement of income for the six months ended December 31, 1976 and December 31, 1975, together with a comparative consolidated statement of changes in financial position, form part of this report. Earnings per common share after providing for dividends on preference shares amounted to 55¢ for the six months under review compared to 43¢ in the corresponding period last year.

**Dividends**

**Common**

On January 21, 1977, your Board of Directors declared Quarterly Dividend No. 53 amounting to 20¢ per common share to shareholders of record at the close of business on January 31, 1977. This dividend is payable on February 15, 1977.

**Preference**

On January 21, 1977, your Board of Directors declared Quarterly Dividend No. 82 at the rate of 25¢ per share on the issued and outstanding 400,000 5% preference shares, and Quarterly Dividend No. 3 at the rate of 62-1/2¢ per share on the issued and outstanding 400,000 10% second preference shares. Preference share dividends are payable on April 15, 1977 to shareholders of record at the close of business on March 15, 1977.

**Revenue**

Inland's natural gas sales volume for the six months under review increased to 19,481,397 Mcf from 14,128,442 Mcf in the comparable period a year ago.

Residential and commercial sales volumes were 6,088,501 Mcf compared to 5,852,099 last year. The increased residential and commercial volumes are attributable to the addition of approximately 4,700 customers since December 31, 1975, bringing the total number of such customers served to approximately 71,000. The increased volumes are somewhat lower than anticipated as a direct result of weather that was 7% warmer than normal and slightly warmer than last year. Industrial volumes have increased materially to 10,876,365 Mcf compared to 6,196,562 Mcf. This increase is somewhat misleading, since industrial sales volumes were drastically reduced in the first quarter of the last fiscal year due to prolonged strikes in the pulp and paper industry coupled with poor market conditions in the lumber industry. Part of the increase in the industrial sales volume during the current period results from the sale of gas through the East Kootenay Link to Columbia Natural Gas Limited. Inland negotiated an interruptible sales contract with Columbia for the sale of off-peak volumes of gas, and to the end of December has delivered almost 800,000 Mcf to them.

Revenue from gas sales has also increased substantially for the above-mentioned reasons, together with the effect of rate increases. The first of these rate increases reflects a flow-through to consumers of a 15¢ per Mcf increase in the wholesale commodity price of natural gas which became effective April 1, 1976. The second reflects a 7¢ per Mcf interim increase which went into effect with the approval of the B.C. Energy Commission on January 2, 1976. This interim increase to all classes of customers will remain in effect until the Commission has considered an application which has now been submitted by the Company for an order establishing the appropriate rate base, cost of service and return on rate base to the Company. Revenues received from the interim rate increase amounted to $1,418,000 for the period under review and totalled approximately $2,766,000 to December 31, 1976. This interim rate adjustment, which is subject to refund together with interest at 9% if not fully justified, must be substantiated before the B.C. Energy Commission along with further rate increases which the Company has now applied for, at the upcoming hearing. While the date of the public hearing is not yet set, it is anticipated that it will be held in April of this year.

### Expenses

Expenses have increased substantially during the period under review, due primarily to today's inflationary cost of doing business. Depreciation also shows a major increase due to the placing in service of the East Kootenay Link. Interest charges are lower than they were for the same period a year ago as a result of the reduction in short-term debt by funds derived from the issue of second preference shares in June of 1976.

### Transportation Contract

The Company has recently signed an agreement with Westcoast Transmission Company Limited which will result in some additional revenue to the Company, and will assist in the alleviation of some of the short fall in Westcoast's gas supply to its United States customer. Inland will take delivery of up to 50,000 Mcf of natural gas per day from Alberta and Southern Gas Co. Ltd. at Yahk, B.C. This gas will be delivered into the Inland system and utilized by our customers, thereby allowing Westcoast to reduce

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